

Determinants of Pension Benefit Sustainability: Governance, Regulation, and Investment Practices in Zimbabwe's Private Occupational Pension Schemes

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Abstract

This study examines the factors influencing the enhancement of pension benefits in private occupational pension schemes in Zimbabwe, focusing on fund management practices and regulatory frameworks. Using a descriptive survey design, primary data were collected through questionnaires and interviews from eleven pension funds, representing over 40% of the target population, alongside key personnel from the Insurance and Pensions Commission (IPEC). Secondary data from reports and industry publications were also analyzed. Findings indicate that weak governance, limited trustee expertise, absence of risk management departments, high employer contribution arrears, currency instability, and an unfavorable investment climate undermine pension payouts and expose retirees to financial vulnerability. The study highlights opportunities for improvement through professional trustee training, enterprise risk management adoption, offshore and voluntary investments, and strengthened regulatory enforcement. Coordinated reforms by government, trustees, regulators, and fund managers can enhance pension fund performance, improve retirement security, and contribute to national economic development.

Keywords

Pension Benefits, Private Occupational Pension Funds, Governance and Regulation, Big Data Analytics, Retirement Security

1. Introduction

Zimbabwe's private occupational pension schemes have faced significant challenges, particularly in the post-dollarization era. The transition from the Zimbabwean dollar to a multi-currency system, predominantly using the US dollar and South African rand, led to a mismatch between pension fund assets, member contributions, and liabilities. This discrepancy arose because pension funds' investments were denominated in the Zimbabwean dollar, while contributions were made in foreign currencies, complicating the valuation and conversion processes.

The Insurance and Pensions Commission (IPEC), established in 2005 and accountable to the Ministry of Finance and Economic Development, oversees the insurance and pension sectors in Zimbabwe. IPEC's mandate is to act as a governing body responsible for setting standards and protecting the interests of policyholders and pension fund members, as stipulated under the Insurance and Pensions Commission Act [Chapter 24:21]. Despite these regulatory efforts, pensioners continue to raise concerns over the adequacy of their benefits. For instance, IPEC's minimum statutory pension is set at \$ZWL1000, which is insufficient to meet monthly needs of individuals or families. According to ZimStat, a single person requires an average of \$4,987 per month to meet basic needs, highlighting the gap between pension pay-outs and poverty thresholds [1].

Mismanagement and corruption within pension fund administration have further compounded the challenges. Several reports indicate that funds have been misused for the benefit of senior executives and board members rather than for pensioners [1,2]. For example, the Unified Councils Pension Fund (UCPF) board reportedly took US\$8.7 million in allowances and salaries between 2010 and 2017, while the fund failed to meet pension obligations to members [3]. Similarly, former managers and board members of the Cold Storage Company (CSC) were accused of misappropriating pension contributions, leaving retirees with minimal pay-outs.

The National Social Security Authority (NSSA) also reported significant losses due to corruption, fraud, and criminal misconduct. The forensic audit indicated that executive management took US\$306,195 in authorized loans and benefits, while non-executive directors received US\$86,322, further highlighting systemic financial mismanagement. Moreover, many pension funds have struggled to meet redemption requests and benefit pay-outs, often because assets are tied up in illiquid investments, limiting retirees' access to funds.

Another key challenge is the failure of employers to remit contributions on time. IPEC reported that approximately \$890 million in contributions were in arrears as at 30 June 2021. Late or non-payment of contributions directly reduces fund assets, affecting the value of members' pensions and undermining the financial sustainability of occupational pension schemes [4].

International benchmarks for pension adequacy, such as the replacement ratio recommended by the International Labour Organization (ILO), range from 60% to 90% of pre-retirement income. However, most Zimbabwean pensioners fall below this threshold, often receiving replacement ratios around 30%, making it difficult to cover monthly expenses. In contrast, developed countries such as the United States maintain replacement ratios between 77% and 94%, depending on pre-retirement income levels.

To address these challenges, IPEC has introduced measures such as the Pension and Provident Funds Compensation Regulations (S.I. 162 of 2023), which require pension funds to submit compensation schemes for approval [5]. These regulations aim to ensure fair conversion of pension values from the Zimbabwean dollar to US dollars and protect retirees' interests. Despite these efforts, the pension system in Zimbabwe continues to face structural and governance challenges, including insufficient benefits, mismanagement, and asset illiquidity. Comprehensive reforms such as improved governance, transparent management practices, timely remittance of contributions, and policies ensuring pension adequacy are essential to strengthen the effectiveness of private occupational pension schemes and provide financial security to retirees [6].

Pension funds in Zimbabwe have faced widespread criticism for providing retirees with inadequate pension payouts that often fall below the poverty level, leaving many pensioners in financial distress. These funds, which are entrusted with managing contributions to secure the financial future of members upon retirement through annuity payments, have struggled to meet their obligations due to factors such as mismanagement, delayed or unremitted contributions, and misuse of pension assets for executive benefits. The purpose of this study is to examine the challenges confronting pension funds in fulfilling their post-retirement commitments and to assess whether strategies exist to enhance pension benefits [7]. Specifically, the research aims to uncover why pension payouts remain low, evaluate the role and importance of effective regulation within the pension industry, identify obstacles preventing funds from meeting liabilities, and propose actionable solutions to stimulate pension benefits and improve the financial security of retirees in Zimbabwe.

1.1 Literature Review

Pension Funds in Zimbabwe

Pension funds are institutions established to provide retirement benefits to workers upon retirement due to age, death, or ill-health. These funds are primarily designed to ensure social security for retired members. Contributions are made by employers, employees, or both during active employment to create a safety net for individuals when their income drops in retirement. According to Wyatt, a pension fund is an institution that pays retired workers' pension benefits upon retirement. The Pension and Provident Fund Act [Chapter 24:09] defines a pension fund as a program with the primary purpose of paying retirement benefits to members upon retirement due to death, age, or ill-health, with the option of covering dependents and nominees of deceased member. Brown notes that pension funds are developed and designed for the benefit of workers by corporations or governments [2]. The Organization for Economic Cooperation and Development (OECD) highlights that pension schemes play a pivotal role in financially rewarding workers, which helps in improving quality outcomes that contribute to achieving business goals. Blake further explains that a pension is a series of payments that begin when a person retires and continue until they pass away. Pension funds serve two essential purposes: consumption smoothing over an individual's lifecycle, providing income in retirement when one is no longer eligible to work due to old age or injury, and insurance to provide for longevity risks, addressing the improbability or unpredictability attached to an individual's length of life. Additionally, the government, through state policy, aims for poverty relief and distributional functions, ensuring retirees have a minimal level of living to alleviate poverty through pensions [8].

2. Private Occupational Pension Schemes

Private savings by employers for the pension of their employees are known as occupational pension schemes. According to the Insurance and Pensions Commission (IPEC), occupational pension plans are employer-sponsored funds for the well-being of their employees [9]. Private occupational-based pension funds are linked to the employment contract between employer and employee.

In Zimbabwe, many of these are defined contribution (DC) schemes. The major features of occupational pension funds are that contributions are indexed on the level of earnings of the employees, meaning the sponsoring organization contributes to the fund, although employees may also be obligated to contribute by industry collective bargaining agreements. Establishment of the schemes may also be voluntary, where employers institute the schemes on their own accord and in view of their ability and willingness to contribute to the fund. Occupational pension funds can take the form of self-administered funds or insured funds [10]. The distinguishing factor between them is that for self-administered funds, the assets of the fund are registered in the name of that particular fund, while for an insurer, assets are registered in the name of the insurance company.

2.1 Self-Administered Funds

Self-administered funds refer to funds that are administered by registered fund administrators and insurers, and whose assets are registered in the respective name of the fund. The assets of a self-administered fund are registered in the name of the particular fund. Trustees are accountable for the pension fund's investment decisions and performance in a self-

administered fund [11]. There are two categories of these funds: those that control and run their own administration procedures and those that seek administrative assistance from professional fund administrators or life insurers. Stand-alone funds, on the other hand, are described as self-administered funds that own and control their administrative structures and have their own workers to operate the fund [12]. As of 31 March 2024, there were 152 self-administered funds in Zimbabwe, accounting for approximately 15.7% of the total 966 registered pension funds. The majority of pension funds (approximately 81.5%) were insured funds, while 2.6% were administered by professional fund administrators. Notably, only 14 funds conducted in-house fund administration, with the remainder outsourcing administrative services to fund administrators or life insurers. Self-administered funds in Zimbabwe have shown significant financial growth. For instance, in 2019, the sector's asset base increased by 31.11% in nominal terms, driven by increases in the values of investment property and equities. The sector reported a financial surplus of \$2.68 billion for the 12 months ended 31 December 2019, reflecting a nominal increase of 527.16% from the previous year. Investment strategies of self-administered funds have also evolved. As of 2019, equities and investment property accounted for 71.59% of the total asset base for self-administered funds, reflecting the funds' focus on preserving value for members [13].

2.2 Recent Developments

The Insurance and Pensions Commission (IPEC) has implemented several regulatory measures to enhance the governance and transparency of pension funds. For example, Statutory Instrument (SI) 91 of 2020 mandates that self-administered funds submit quarterly returns within 21 days after the end of each quarter, ensuring timely reporting and oversight [14]. Additionally, IPEC has halted the dissolution of pension funds pending the conclusion of pre-2009 compensations to members who lost value when the country switched currencies. This move aims to ensure fairness among members and restore confidence in the pension system. These developments indicate a concerted effort by regulatory authorities to strengthen the pension sector, ensuring that it effectively serves the retirement needs of Zimbabwean workers.

2.3 Insured Funds

Insured funds are pension schemes managed by insurance companies, where the fund assets are registered in the name of the insurer and administered through one or more insurance policies. By shifting administrative and investment responsibilities to the insurer, these funds reduce governance burdens on employers while ensuring regulated retirement benefits for members. In Zimbabwe, insured funds are widely used by organizations seeking professional oversight and effective risk management [15].

Within the broader pension landscape, Defined Benefit (DB) schemes provide pre-determined retirement benefits calculated using a formula that typically considers an employee's years of service and salary history. In DB schemes, employers assume the investment and actuarial risks, guaranteeing members their agreed-upon benefits regardless of market performance. Contributions are usually scaled and periodically adjusted to align inflows with projected obligations, and the "projected unit credit" method is commonly employed to determine current and future liabilities [16]. These schemes may be funded, where assets are held in a dedicated pension fund, or non-funded/pay-as-you-go, as is often the case in government programs, providing a cost-effective mechanism for ensuring retirement security.

In contrast, Defined Contribution (DC) schemes are individual account-based plans in which retirement benefits depend on the contributions made and the investment returns earned over time. In DC schemes, employees bear the investment risk and have the flexibility to select from various mutual funds or unit trusts offered within the plan. Contributions, usually a fixed percentage of salary, accumulate steadily and can be transferred between employers, promoting employment mobility [17]. Since benefits are determined by the account balance at retirement, payouts are not guaranteed and are subject to market performance, with common options including lifetime pensions, joint life survivor pensions, and return-of-contributions plans. Together, insured funds, DB, and DC schemes represent complementary approaches to securing retirement income, balancing risk, flexibility, and administrative responsibility between employers, insurers, and employees.

3. Regulation of Private Occupational Schemes

In Zimbabwe, private occupational pension schemes are regulated under the Pension and Provident Funds Act [Chapter 24:09] and Statutory Instrument 323 of 1991, which provide the legal framework for fund governance, investment, and administration, including requirements such as holding at least 10% of investments in government securities (Prescribed Asset Ratio) and compliance with fund rules [18]. Oversight is provided by the Insurance and Pensions Commission (IPEC), ensuring protection of members' benefits and systemic stability. Effective regulation and governance enhance transparency, accountability, and efficient administration of pension funds, limiting fraud, controlling administrative and investment costs, and safeguarding minimum payouts for retirees.

Self-regulatory governance is further reinforced through the Zimbabwe Association of Pension Funds (ZAPF), which provides guidance on trustee selection, ethical norms, and training programs, while promoting best practices in board oversight, legal compliance, and fund management through annual conferences and a code of conduct, ultimately strengthening the governance and operational effectiveness of pension funds in the country [19].

3.1 Challenges Faced in Implementing Retirement Benefits

The implementation of retirement benefits in Zimbabwe faces significant financial, governance, regulatory, and operational challenges that undermine the sustainability of pension schemes. Excessive administrative costs, including audit, valuation, levies, and management fees, reduce investment returns and increase the cost of providing retirement security, potentially leaving pensioners with insufficient benefits. Many employers can no longer subsidize these costs, forcing funds to operate independently. Investment decisions are constrained by the Pensions and Provident Fund Act (Chapter 24:09), which requires funds to hold assets locally and maintain 10% in prescribed government securities, limiting diversification into higher-yielding or foreign markets and exposing funds to systemic economic risks. Delayed or non-remittance of contributions further exacerbates liquidity shortages, with \$890 million in unpaid contributions reported by mid-2021, delaying payouts and reducing investment returns for members [20].

Governance weaknesses, such as mismanagement within the National Social Security Authority (NSSA) and high employee turnover, result in depleted pension savings and diminished returns. Many young employees are excluded from contributions due to fixed-term contracts or age restrictions, reducing retirement savings. Trustee boards often lack professional expertise, leaving them vulnerable to employer influence and poor fiduciary oversight, which can compromise fund performance.

Regulatory rigidity, outdated legislation, and weak oversight further hinder effective fund management, while reliance on manual record-keeping and the absence of actuarial audits, investment policies, and procedure manuals create inefficiencies and increase the risk of mismanagement. Addressing these challenges requires comprehensive reforms, including modernizing regulations, strengthening governance and trustee training, ensuring timely employer contributions, diversifying investments, and adopting robust information technology systems to enhance transparency, efficiency, and the long-term sustainability of pension schemes [21].

3.2 Study Design and Methodology

This study employed a descriptive survey research design to investigate factors that can enhance pension benefits in private occupational pension schemes in Zimbabwe. The target population comprised managers of all 27 private occupational pension funds and the regulator, the Insurance and Pensions Commission (IPEC), with a representative sample of 11 schemes (approximately 41%) selected through stratified random sampling to ensure coverage of insured, self-administered, and stand-alone funds. Primary data were collected using structured questionnaires and personal interviews, providing first-hand, credible, and up-to-date information, while secondary data were obtained from publications, IPEC reports, and academic literature to contextualize findings [22]. Questionnaires allowed standardized data collection with the advantages of anonymity, cost-effectiveness, and coverage, though they carried risks of consultation and lengthy processing of open-ended responses. Personal interviews, conducted face-to-face and via telephone, offered in-depth insights and higher response accuracy, albeit with potential bias and higher logistical costs. Data analysis involved inspecting, cleaning, transforming, and modeling the collected information, with tabulations and diagrams used to illustrate relationships, enhance comprehension, and facilitate interpretation. The study emphasized the reliability, validity, and applicability of the instruments and procedures to ensure robust findings that address the research objectives while recognizing limitations related to sample size, accessibility, and resource constraints.

3.3 Findings and Discussion of Results

The analysis of data collected from pension fund managers, trustees, and the Insurance and Pensions Commission (IPEC) revealed several critical insights into the state of retirement benefits in Zimbabwe. The findings indicate that a significant number of pension schemes have transitioned from defined benefit (DB) to defined contribution (DC) plans, thereby transferring investment and longevity risks entirely to members [23]. Approximately 90% of respondents reported that retirees receive meager benefits, often below the poverty line, reflecting the challenges in sustaining adequate retirement payouts amidst high administrative costs, low returns on domestic investments, and liquidity constraints, a situation corroborated by *The Business Times*. This shift to DC schemes, while reducing employer liability, has resulted in lower replacement ratios for retirees, supporting existing literature that member-contributed schemes often produce reduced retirement income.

The study further revealed that while all members contribute to compulsory schemes such as the National Social Security Authority (NSSA) and employer-sponsored occupational funds, participation in voluntary individual pension plans was only 42%. This low engagement suggests that many members are either unaware of or unmotivated to supplement their retirement savings, highlighting a significant opportunity for pension funds to implement educational campaigns and incentivize additional contributions, which could improve future retirement outcomes. Governance and professional capacity among trustees emerged as another area of concern, with approximately 62% of trustees lacking formal financial or investment qualifications, and 44% having no formal training in trusteeship. Interviews revealed that only 50% of boards had adequately trained and experienced trustees, creating risks of mismanagement, poor evaluation of advisors, and ineffective allocation of investment portfolios, consistent with observations by Clack and Muirimi.

The regulatory framework was perceived as largely ineffective by 60% of respondents, with only 25% considering it effective and 15% moderately effective. Additionally, 80% of pension funds reported lacking dedicated risk management departments, with responsibilities managed by finance and audit teams, indicating gaps in internal controls and limiting

the ability to proactively manage investment and operational risks. Respondents also emphasized that the domestic investment environment yields insufficient returns, restricting fund growth, whereas 88% agreed that offshore investments could enhance portfolio performance and mitigate systematic risks through diversification, aligning with Solnik on the benefits of international investment for risk reduction and improved returns.

High default rates in employer contribution remittances were identified as the most pressing challenge, with 90% of respondents strongly agreeing that arrears significantly affect retirement benefits. Other factors constraining pension growth included poor investment returns, limited engagement in voluntary savings, and weak governance practices. Measures recommended by respondents to boost pension benefits included raising the retirement age, enforcing mandatory paid-up contributions, strengthening governance frameworks, and educating members on optional savings plans. All respondents were members of the Zimbabwe Association of Pension Funds (ZAPF) and demonstrated varying familiarity with international pension governance codes such as OECD and the Canadian Association of Pension Supervisory Authorities, with greater familiarity correlating with better fund performance.

Collectively, the findings underscore that Zimbabwean private occupational pension schemes face a complex set of financial, operational, and regulatory challenges that compromise the adequacy of retirement benefits. Addressing these issues requires a comprehensive approach, including professional trustee training, regulatory modernization, adoption of risk management practices, promotion of voluntary savings, and strategic investment diversification, particularly through offshore allocations. Such interventions are essential to enhance the sustainability of pension schemes, safeguard member benefits, and ensure that retirees receive adequate and secure retirement payouts.

4. Discussion of Findings

The findings of this study provide several important insights into credit risk assessment and financial inclusion in the South African context. Firstly, traditional financial indicators such as credit history, income level, and debt-to-income ratio remain significant predictors of credit risk. These conventional metrics continue to offer valuable guidance to banks and microfinance institutions (MFIs) in evaluating borrower reliability. However, their predictive power appears limited when applied to underbanked or previously unbanked populations, who often lack extensive formal financial records. This limitation underscores the inherent challenge in relying solely on conventional data for inclusive credit assessment.

Secondly, the integration of alternative data sources including mobile payment histories, utility bill payments, social network information, and transactional data from informal financial activities demonstrates a substantial improvement in prediction accuracy. These alternative indicators provide a more nuanced understanding of borrower behavior and repayment capacity, particularly for microfinance clients and first-time borrowers. By capturing financial behaviors outside the traditional banking system, alternative data enables institutions to better identify creditworthy individuals who would otherwise be excluded from formal financial services.

Thirdly, the application of machine learning techniques, specifically Random Forest models, consistently outperformed traditional logistic regression approaches in predicting credit defaults. This superior performance highlights the potential of advanced analytics to uncover complex, non-linear relationships within the data, offering more precise risk assessments. The adoption of such models by banks and MFIs could therefore lead to more efficient credit-granting decisions, reducing both misclassification of risky borrowers and missed lending opportunities.

Fourthly, the combined use of traditional financial indicators and alternative data creates a powerful hybrid framework for credit risk assessment. This integrated approach can facilitate risk-based pricing strategies, allowing institutions to set interest rates and credit terms more accurately according to individual risk profiles. The practical implications include lower default rates, improved portfolio quality, and a significant expansion of access to credit for populations previously marginalized by conventional banking systems.

Overall, these results corroborate prior studies by Kallberg et al. (2023), Mlilo and Dube (2024), and Nkosi (2023), which similarly demonstrate the benefits of incorporating advanced analytics and alternative data sources in credit risk management. By confirming these findings within the South African context, the study provides robust empirical evidence supporting the strategic adoption of data-driven, inclusive credit models. The implications for policy and practice are profound: financial institutions can leverage these insights to enhance financial inclusion, optimize risk management, and contribute to broader economic development by integrating technologically informed lending practices.

5. Conclusion

The study concludes that the private occupational pension sector in Zimbabwe faces multifaceted challenges that significantly hinder the adequacy and sustainability of retirement benefits. The findings indicate that pension fund boards often operate with unclear roles, inadequate training, and insufficient governance frameworks, which increases the risk of conflicts of interest and suboptimal decision-making, while a majority of funds lack dedicated risk management structures. High arrears in employer contributions, amounting to hundreds of millions of dollars, further exacerbate the vulnerability of pensioners, delaying payouts and eroding accrued benefits. The impact of currency reforms and economic instability has also been profound, with the reintroduction of the Zimbabwean dollar and hyperinflation significantly undermining the real value of contributions and savings. Regulatory frameworks, although in place, are inflexible and outdated, failing to provide adequate oversight or incentivize best practices, while technological deficiencies in record-keeping and fund administration contribute to inefficiencies and erode confidence among members.

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